

Regulating a Ride-Hailing Business Constructively and Effectively

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INTRODUCTION

Ride-hailing' (also known as 'ride-sharing') platforms connect drivers and vehicles with consumers who need transport, at an agreed price. Typically, a customer uses an app on her smartphone to request a ride at a particular time and from a specific place. The app on the phone then walks the customer through a series of steps, including the actual or expected price of the ride, the location of the driver, and the likely wait time. It also allows the customer and the driver to contact each other without giving out personal information. These platforms take advantage of GPS technology to arrange for the ride and help determine a driver's best route. They also provide other benefits for riders and drivers, including measures of rider and driver quality to foster trust (Luca, 2016), and an efficient payment system, frequently using a credit card that is entered into the platform's data base. The platforms also can help balance supply and demand by adjusting prices in real time to accommodate shortfalls in the supply of drivers or surges in demand. Ride-sharing companies are able to implement 'pay flexibility' (Wood, 1989), a term that refers to a firm's ability to adjust labor costs, particularly wages, to changing market conditions. In exchange for providing these various services, ride-sharing platforms take a percentage of the fare for each ride. The may vary between 0% and 30% of the

ride fare, most often around 20%-25% (Huet, 2015).

Indonesia has witnessed growth in ride-sharing business for the last several years. While it has received a warm welcome from Indonesian customers in several cities, the rapid growth of Uber, Grab and Go-jek has generated considerable debate over the relevance of local regulations to these platforms and the suppliers who use them. On the one hand, regulatory measures may be needed to protect consumers, promote public safety, and meet other legitimate governmental goals. On the other hand, regulation can chill incentives for innovation by raising costs and cutting into potential returns, thereby impeding or discouraging any new entry and depriving consumers of the benefits of new product and service offerings.

Many regulators, including those in Indonesia, face a challenging task in balancing these concerns. The novel products or services at issue, and the manner in which they are supplied, may be quite different from those of incumbent conventional taxi services which operate under ample regulatory guidance. Moreover, what is known as 'disruptive innovation' tends to nurture dynamic, evolving markets, complicating the task of setting appropriate regulations.



A Constructive and Effective Regulation

There is no doubt that regulation is needed for the 'sharing economy' – such as the ride-sharing business. However, regulation needs to be constructive, to avoid smothering innovations leading to efficiency and prove an effective way to protect the public. In order to be able to achieve this, regulators need to really understand and consider the characteristics of a sharing economy as a whole and ride-sharing in particular. The following are among of the characteristics needed to consider:

■ Economic benefits

The first and the fundamental driver of ride-sharing is consumers' benefit. Consumers enjoy the lower tariff afforded by a dynamic mechanism of supply and demand. The second benefit comes from lower cost of delivering the services (by drivers and/or the owners of vehicles) as a result of lower fixed costs such as licences, zero marginal cost (in the case of using idle cars), etc. The third benefit is the relatively low fixed and variable costs of the platform.

■ Asset ownership model

The ride-sharing business model mostly utilizes existing assets. Operators generally do not have to purchase new vehicles. This is a major benefit – at least in terms of the cost structure. The main cost consists of variables, in terms of gasoline and O&M (operational and management costs).

■ Demand-supply matching / management

This is crucial and where benefits are delivered (or not) and where a profit is made (or not). The algorithms and smarts to manage demand vs. supply are crucial. The platforms fully control the mechanics of demand-supply.

■ Intermediated audiences

Who you connect to each other results in important consequences for the other elements of a business model. A ride-sharing business model connects peers with one another. Uber, Grab, and Go-jek connect normal citizens with each other, but needs to ensure they interact in an appropriate manner, ensure mutual safety, promote tolerance and respect and so on.

■ Self-regulated elements

The elements which you decide to allow to be self-regulated by peers is significant. Since ride-sharing businesses (the platforms) do not own the assets that they provide access to, they have but limited control over the condition of the asset. Yes, Uber, Grab, and Go-Jek require drivers to pass certain background checks and their vehicles to be inspected, but at best this ensures safety and minimal control over the experience. The elements of the experience, quality and potentially other factors need to be self-regulated. This has notable benefits but requires careful consideration of which elements should be allowed to self-regulate.



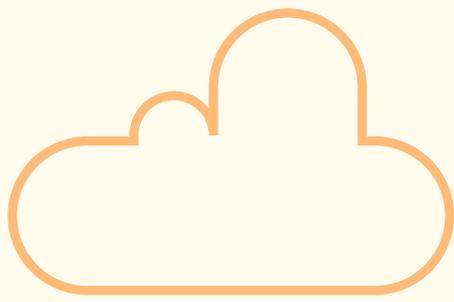
Troublesome Regulations in Indonesia

The Government of Indonesia, represented by the Ministry of Transportation and the Ministry of Information and Communication, is facing a regulatory issue today, with the rapid growth of ride-sharing business models such as Uber, Grab Taxi, and Go-car. These new business models have been confronted by existing traditional taxi companies like Blue Bird, Express Taxi, etc. Following protests from conventional taxi companies, the government first issued a Ministerial Decree No. 32/2016, in May 2016. Then, responding to mounting complaints from the ride-sharing community, the Ministry postponed the implementation of the regulation for more than a year. In the meantime, the Supreme Court has annulled several of the provisions in the regulation, in the effort to provide legal certainty when government policy leaves the transportation sector stuck in limbo. The last move by the government is to promulgate a new Decree by the Transportation Minister: Number 108/2017, which was to come into force on February 1, 2018, until it widespread protests from many parties (especially drivers) influenced authorities to postpone it again. It seems that the government, the Transportation Ministry and the Information and Communication Ministry are all struggling to find a way to effectively but

productively regulate the sharing economy business model, exemplified by ride-hailing.

There is no doubt that this ride-sharing business needs regulation to protect the interests of the people. The question is how to regulate it without hampering innovation, encouraging efficiency in the sector. In fact, it is common knowledge that regulating any model of a sharing economy is not an easy task. How a ride-sharing business actually promotes innovation leading to efficiency, while it expects 'trust' for consumer protection, needs to be worked out. The government must first understand the characteristics of the sharing economy, such as its economic benefits, asset ownership model, supply and demand management, self-regulatory mechanism and the like. In other words, the government needs to pursue legitimate regulatory goals such as those relating to health, safety, a consumer protection, while avoiding regulations that may unnecessarily chill innovation, market entry and competition. The government needs to keep in mind the fact that a ride-sharing business can produce a type of disruptive innovation that greatly benefits consumers. Platforms and suppliers, however, should not be permitted to engage in unfair or deceptive acts or practices simply because they are introducing innovative products or services.





Any regulation issued should not burden innovation or become a barrier to new forms of entry and entrepreneurship. Another suggestion is to appropriately tailor regulations which both protect consumers and foster broad public acceptance of and participation in the sharing economy.

Looking at Transportation Ministry Decree No. 108/2017, we conclude it really needs to be amended to balance the protection of health and safety of consumers while keeping the spirit of innovation, entry, and competition. At the same time, deregulation needs to provide more room for conventional taxi companies to adjust to a new business model.

It is understood that Ministerial Decree No. 108/2017 was derived from Law No. 22/ 2009 on public transportation; thus, amendment to the law may be required. The regulation clearly treats ride-hailing services such as Uber, Grab-Taxi and Go-Car as public transportation, and therefore subject to all the numerous requirements set forth for such a business. This will potentially eliminate all the positive characteristics of the ride-sharing business model, which are basically ones which attract customers to use the services.

Consequently, forcing providers of services to be part of a transportation company will eliminate the low cost of 'idle' assets offered to a customer. Article 64, which refers to articles 36, 37, and 38 do not allow peer-to-peer transaction any longer since any ride-hailing service provider acts on behalf of the company/institution they are part of. In addition, the company/institution has to own at least five vehicles, which will effectively eliminate the efficiency the ride-sharing business offers to the public. In the meantime, article 65 of the Decree introduces barriers to entry, which threaten to erect market inefficiency, by crimping supply and demand mechanisms. All in all, there are many counter-productive articles in the regulation which should be voided.



What should the government do?

The government should rewrite Transportation Ministry Decree No. 108/ 2017, especially the articles which will potentially banish all the benefits of the ride-sharing business offered to consumers. Yes, it is acceptable and even obligatory to protect consumers by requiring drivers to have public transportation licenses, possessing necessary insurance, and adhering to a minimum standard and/or quality of cars, for instance. However, a new regulation has to defend and even promote innovation, entry, and competition, as the 'soul' of a ride-hailing business model.

The government has to realize that a sharing economy model such as the ride-sharing business will continue to emerge as a consequence of developments in technology. The best way for the government to regulate the ride-sharing business is through the platform firms themselves. Regulation should manifest through the market, where a dynamic market mechanism is preserved while upholding public order to protect the public. Regulators need to cooperate with the platform companies in requiring minimum standards of qualification of drivers. A self-regulated mechanism between riders and drivers can be complemented by police records to prevent 'bad' drivers and riders from taking part in the business.

With an understanding of the above elements of any sharing economy business model (such as exemplified by ride-sharing), the government will be able to regulate it effectively and efficiently. Thorough discussions with platform providers are a must, since none of the new business model phenomena exist without suitable cyber-platforms. The ride-sharing business model offers economic benefits to consumers; it utilises already existing assets; it matches supply and demand efficiently, at a competitive price; it connects peers with one another. This is an area where the government has to make sure that it interacts with others in an appropriate manner, ensuring the safety of both, urging tolerance and respect and so on.

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